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THE PRESENT FINANCIAL AND MONETARY CONDITION OF JAPAN

I. RECENT FINANCE AND THE WAR

War loans.—The leading feature of the present financial position of the Japanese government is the loans issued and to be issued in connection with the war. The expenditure for one year of the present war has been estimated at Y. 576,000,000. An internal war loan of Y. 100,000,000 under the name of “treasury bonds,” payable in six instalments, of which the second has recently fallen due, was issued in February, 1904, at 5 per cent., to be repaid in five years, and that loan was oversigned by a very considerable amount. Later¹ it was announced that the government would issue a second series of “exchequer bonds,” to bear interest at 5 per cent., and to be redeemable within five years from the date of issue. These bonds were to be placed on the market at the minimum price of Y. 95 per Y. 100 face value.

On May 10, 1904, moreover, the following imperial ordinance was published in the *Official Gazette* relating to a new Anglo-American loan of £10,000,000:

IMPERIAL ORDINANCE No. 138

ARTICLE I. The sum of £10,000,000 will be raised in London and New York by public loan bonds in compliance with Law No. 1 of this year. The public loan bonds will be issued by underwriters.

ART. II. The bonds will bear interest at the rate of 6 per cent. per annum.

ART. III. The face value of the bonds shall be repaid on April 5, 1911, provided that after April 5, 1907, the whole or some part may be repaid at any time according to the convenience of the government, such repayment to be duly advertised in the papers six months previous. In the case of the repayment of a part of the loan, lots will be drawn at the branch offices of the specie bank in London and New York, and the numbers of the bonds drawn will be advertised in the papers one month before the time of repayment.

ART. IV. Interest on the bonds, including the month of payment, will be paid half-yearly on April 5 and November 5.

¹ May 10, 1904.

ART. V. The bonds will be issued for two denominations, namely £100 and £200. Each bond is unregistered and has interest coupons attached with the sum stated in English values. The rate of exchange between English and American money will be \$4.87 for one pound sterling.

ART. VI. Interest coupons for the full period of the loan and bonds drawn by lottery will be accepted in payment of customs fees at the rate of 2s. ½d. for every Y. 1.

ART. VII. Repayment of the principal and interest shall be guaranteed by a first claim on the customs revenue.

ART. VIII. The value of the bonds will be £93 10s. for every £100 mentioned on the bonds.

ART. IX. The subscription to the bonds shall be paid in four instalments from May to August, 1904; that is, one instalment a month.

Interest for the half-year shall be paid on October 5, 1904, to the subscribers to the bonds, as stated in the preceding paragraph.

SUPPLEMENTARY PROVISION

This imperial ordinance shall be in force on and after the date of promulgation.

The instalments in which the treasury bonds issued February are payable as follows:

- | | |
|-----|------------------------|
| (1) | Y. 2—on March 21, 1904 |
| (2) | 15— |
| (3) | 15— |
| (4) | 15— |
| (5) | 10— |
| (6) | 15— |
| (7) | 15— |
| (8) | 8— |

These bonds bear interest at 5 per cent. per annum, payable in July and December, and are redeemable within five years from the date of issue.

Government resources.—Of the estimated cost of the war, up to the end of 1904, amounting to Y. 576,000,000, Y. 461,000,000 is to be provided by the issue of bonds and temporary loans; increased taxation is to yield Y. 68,000,000, and Y. 47,000,000 is expected from surpluses of revenue. Since the promulgation of the imperial ordinance in February last the steps taken by the government to raise war funds have been as follows:

By treasury bonds just referred to.....	Y. 200,000,000
Brought over from funds of special accounts.....	25,000,000
From temporary loans.....	31,000,000

TotalY. 156,000,000

Of that sum about Y. 50,000,000 had been expended up to March 15, including the money paid for the warships "Nishin" and "Kasûga." Deducting the above amount from the estimated total of Y. 576,000,000, we find that Y. 420,000,000 had then still to be provided. Of that amount Y. 380,000,000 is to be applied for the expenditure for the army and navy, from April to December, and Y. 40,000,000 is to be set aside as a reserve fund.

The sources from which the above sum is to be obtained are defined as follows:

Increased taxation	Y. 68,000,000
Surplus in the general budget.....	47,000,000
Money to be brought over from the fund of special account....	25,000,000
Public loan bonds, exchequer bonds, and temporary loans.....	280,000,000

TotalY. 420,000,000

The reserve fund of Y. 40,000,000, as mentioned above, is to be raised from curtailment of administrative expenditure, postponement of public works, etc.

As the 25,000,000 already taken from special accounts, and the same amount to be taken from special accounts, and the Y. 31,000,000 already raised by treasury bonds—that is, a total of Y. 81,000,000—will have to be refunded and redeemed in due course of time, a total of Y. 361,000,000 bonds had to be floated, in addition to the Y. 100,000,000 bonds already issued. Of the former sum the Anglo-American loan, roughly, covers Y. 100,000,000, the treasury bonds about to be issued just now another Y. 100,000,000, so that Y. 161,000,000 has still to be found, and, in due course of time, another Y. 100,000,000 to redeem the first issue of treasury bonds to that amount.

Assuming that the Y. 161,000,000 can be obtained at the same rate as the Anglo-American loan, the interest annually payable will be as follows:

Treasury bonds, 100 million at 5 per cent.....	Y. 5,000,000
Treasury bonds, 100 million at 5 per cent.....	5,000,000
Anglo-American loan, 100 million at 6 per cent.....	6,000,000
Loan to be issued, 161 million at 6 per cent.....	9,666,000

Total annual interest.....Y. 25,666,000

Ability to carry the burden.—It may be questioned whether a country engaged in a war will show, or continue to show, any surplus of revenue. It will perhaps be safer not to count upon that. But there would still be the 68 odd million from increased taxation, so that there would be an annual amount of 23 odd million for the redemption of loans and bonds, at which rate—excluding the prospect of a second war, or, rather, of *the* second war—the entire indebtedness would be cleared off in about twenty years; always assuming that the people can and do bear the burden of the increased taxation so that receipts do not fall below the estimate, and that further expenses for armaments and for the army and navy do *not* make new and heavy loans necessary—which, however, is not to be expected.

But the loans have to be repaid in a very much shorter period than twenty years; they have to be repaid in five years. When supposing even that 161 million has been repaid in that time, 800 million more will have to be repaid, even if no new loans are contracted in the meantime; and that that will be the case is more probable than not. At the end of five years, therefore, the prospect is that at least 300 million yen will have to be borrowed again, and in the meantime all public works suspended at present will have to remain suspended. During the war also, it must be remembered, the ablest and best men, the pick of the country, are taken away from agricultural, industrial, and generally productive pursuits, so that the country suffers a large indirect loss whose amount cannot readily be estimated. It seems to be certain that the estimates of the government, in spite of these facts, are based not only upon an undiminished productive ability of the country, but upon the assumption that a diminished number of wealth-producers—and many of them, moreover, of inferior physique and ability—can bear an increase of about 43 per cent. in taxation, the estimated total of the revenue from taxes for the year

ending March, 1904, being 158 odd million, and the present increase 68 million.

I must leave it to those better versed in political economy than I am to draw valid conclusions from these facts, and from other facts to follow. Mr. Kurino, the late minister to Russia, himself, in a recent interview at Singapore, expressed his doubts as to the financial result of the war, and a Tokyo paper, in consequence, attacked him as "unpatriotic." In case Japan is victorious throughout, it is true, there may be an indemnity to appear on the revenue side of the national account. But I have not yet met a single Japanese — officer, official, banker, or merchant — who thinks that an indemnity can be got out of Russia; and I share their opinion. The general view of the future, indeed, is that, win or lose, the war will result in direct and indirect loss to Japan.

Errors in recent fiscal legislation.—One of the most unwise and most impolitic measures of the new "Extraordinary Special Tax Law" undoubtedly is the increase of the business tax by 70 per cent. It is not only certain to defeat its own ends, but will result in killing a number of small businesses, while it will be severely felt even by those in better circumstances, and all the more so as the income tax — that is, the tax on the net returns from the same business — is also increased by 70 per cent., so that those, for instance, who so far have paid Y. 200 for both taxes will henceforth have to pay Y. 340; and that makes a very perceptible difference. Since February, 1903, when the war cloud first began to loom upon the horizon, business has suffered, and as the weary months, full of doubt and anxiety rolled on, complaints were heard on all sides and in the press, and the government was urged to make an end of the uncertainty that paralyzed all enterprise and threw workingmen and women out of work.

Since the declaration of war things have gone from bad to worse, so that in many, if not in all, foreign business houses business is practically at a standstill, and the absence of wheeled traffic in the streets, carrying merchandise to and from the warehouses, which stand side by side with office buildings and residences in the foreign settlement, shows that the general complaints about the

continued stagnation of business is not mere idle talk. Both among foreigners and Japanese there are those who have already shut up altogether, or who have discontinued this or that formerly fairly profitable branch of business, and there are others who are between two minds whether they shall close up or keep on, while many merchants refuse to take contracts for goods, for fear of adverse fluctuations of exchange caused by probable further exports of gold. Under such circumstances, then, the Japanese government has thought it good policy, good political economy, to increase the business tax by 70 per cent.

Industrial situation of Japan.—However, there is much, very much still to be done in Japan, and not nearly sufficient hands able and willing to do the day's work of the country. But, some may ask, what is all this we have heard and read about the abundance of cheap skilled labor in Japan?

The foundation of the finances of the country is and can be laid only by the workers of the country, and the workers of Japan have largely been judged by the carloads, nay by the shiploads, of so-called "curios" which the country — if I may use a somewhat coarse, but in this case correct, term — has vomited, among them real and pleasing works of art, but, for the most part, coarse, vulgar, gaudy, glaring stuff that might, for a time, delight the denizens of Chatham Square and Mulberry Street, or of the Barbary coast in San Francisco — and it may have palled even on them — but which the Japanese themselves would not have in their houses.

But when it comes to practical trades and tradesmen — such as house carpenters, joiners, blacksmiths, glaziers, goldsmiths, tailors, engravers, printers, compositors, bookbinders, etc. — there is a different story to tell. Japan has no trade legislation whatsoever, no system of apprenticeship, no journeymen, no masters. No one ever learns a trade, or even in course of time comes to understand the work of his trade, in all its branches thoroughly. Boys, apparently under no control on the part of their parents, enter offices and workshops when they please, and leave when they please without notice. Workmen of all trades do the same, and the law affords no remedy in case of loss through the leaving

of workmen, or caused through their carelessness and indifference or ignorance of their trade, short of a lawsuit that might last for months or for years.

There is no competition in the labor market. The demand for skilled, or even half-skilled, labor is always far in excess of the supply. Thus, for instance, it took about two years to build a stone bridge of only one arch at Shimbashi in Tokyo over a shallow creek only sixty feet wide, and about the same time to build a similar bridge at Nihonbashi, Tokyo, over a creek only a few feet wider. A day's work, therefore, is an altogether unascertainable quantity which has all manner of proportions to the day's pay. Workmen and artisans of all classes, therefore, must be very much left to do as they please, for there is work to be done waiting for them everywhere, and the man who leaves one place today is received with open arms at another tomorrow, if he chooses to go to work again so soon. On the other hand, Japanese workmen are almost without exception of sober and cleanly habits. Under such circumstances, however, it is absolutely impossible to develop the natural resources of Japan to their fullest extent. The following statement² will serve to illustrate the subject:

The principal natural products of Japan are copper, coal, tea, rice, and silk. We shall now give the values of the export of these goods for 1902, the figures for silk, however, including manufactured silk:

EXPORTS	
	1902.
Copper	Y. 10,261,984
Coal	17,270,516
Tea	10,405,587
Rice	6,679,574
Silk	113,605,639
	<hr/>
	Y. 158,226,170

The total amount of exports in 1902 was Y. 258,303,064. Deducting the above amount from this, we obtain Y. 100,077,894, and assuming that 90 million of that amount represent the output of the skilled labor of Japan, and the balance the remainder of raw materials, we find that the general industrial output of Japan for 1902 was about Y. 2, or 4 shillings, per head of the population, or $\frac{2}{3}$ sen per head per working day. That shows the intellectual and physical capacity of Japanese skilled labor outside of the silk industry.

² Taken from the *Eastern World* of March 19, 1904.

These facts were adduced in contrast to the extraordinary ability the Japanese have displayed in naval and military matters, and they also explain the necessity for large domestic and foreign loans for military and naval requirements—of loans so large that they are out of all proportion to the producing ability of the people, and to the increase of the population. The same facts, apart from legal disabilities from which foreign enterprises suffer in Japan, also explain why the cry for foreign capital has found no echo abroad, for an indispensable requirement for the employment of capital is an abundance of reliable skilled labor obtainable at all times without any trouble, and at rates in proportion to the earnings; and those conditions are absent in Japan.

Taxable capacity of the people.—What then is the ability of the people to bear the new loans and the increased taxation?

Twenty years ago the population was 37,751,764, or, roughly 38 million. Today it is 46 million. Twenty years ago the taxation was 64 million; today it is over 158 million. While the population, therefore, has increased a little over 20 per cent., the taxation has increased 150 per cent., and the present further increase of 68 million will make the total increase of taxation over 335 per cent. These figures speak for themselves; but they must not be taken alone—not without also considering the proportion of the increase of trade during the same period. In 1884 the import and export trade of Japan amounted to Y. 63,544,113. On the other hand, for 1903 it amounted to Y. 606,637,960, that is, to nearly tenfold that amount. It would be rash, however, to draw any conclusions from these figures. What we have to consider first are the results of that trade, the relations between exports and imports, and there we find a very heavy balance against Japan. For the last twenty years we find an excess of imports over exports of Y. 358,813,906, and an excess of exports over imports of Y. 110,816,113, so that at the beginning of 1904 we have Y. 247,997,793 excess of imports as the balance of trade against Japan, which has to be paid in one way or another, and which the future is likely to increase. The increase of imports

begin with 1894, the year of the war with China, and, with the exception of the year following it, it has continued since, the year 1898 showing the largest excess of imports, with Y. 111,748,404. The ability of the people under such conditions to bear an increase of taxation of 335 per cent. against twenty years ago must be questioned, and it seems to me, from what I hear and see on all sides, that the complaints of the people about hard times have very good grounds; that those who entered upon the present war for fear of Russian encroachments have not chosen the lesser evil; and that the people of Japan cannot bear the present loans and taxation without great and continued sacrifices, which must injuriously affect the development and material welfare of the country.

II. GENERAL FINANCIAL SITUATION

Loans.—The total amount³ of Japanese loans in March, 1903, stood at Y. 559,621,011. The various items are as follows:

Old public loan.....	Y. 4,169,636
Hereditary pension bonds, 6 per cent.....	19,630,475
Navy loan at 5 per cent.....	8,297,300
Consolidated public loan at 5 per cent.....	167,128,350
Railway loan at 5 per cent.....	37,248,900
Railway loan at 4 per cent.....	17,577,750
War loan at 5 per cent.....	115,641,150
Public works loan at 5 per cent.....	60,134,600
Public works loan at 4 per cent.....	78,052,250
Hokkaido railway loan at 5 per cent.....	3,529,500
Hokkaido railway loan at 4 per cent.....	2,000,000
Formosan public works, 5 per cent.....	16,707,900
Loan for redemption of paper money.....	22,000,000
Temporary loan to cover expenses connected with Formosan public works	5,440,200
Temporary loan for covering deficit of iron foundry fund.....	2,000,000
Total	Y. 559,621,011

³ This total, however, does not agree with the total first given, although all these figures stand on the same line in the *Financial Annual*. There is a difference of Y. 1,543,247, and there is no explanation for it. By just so much the addition of the *Financial Annual* is wrong. We turn to other sources of information,

On those loans an annual interest of 27 odd million has to be paid : on the first national loan, 5 million ; on the Anglo-American loan, 6 million ; and on the second national loan about to be issued, 5 million ; that is, for the three loans, 16 million, so that we shall shortly have a total of Y. 43,000,000 annual interest for the national debt ; and since 161 million, as shown above, still has to be found for the conduct of the war, about 10 million more interest has to be added, so that we have to face a future annual interest of about Y. 53,000,000, or about Y. 1.15 per head of the population, against a taxation of about Y. 3.61 per head at the former rates, to which, however, Y. 1.46 per head will be added now through the increased taxes for war purposes, making the total Y. 5.07 per annum per head, against a total of Y. 6.30 per head of exports during the year 1903. The imports during the same year, however, amounted to Y. 6.90 per head, so that 60 sen per head to be paid for imports must be added to the taxation of Y. 5.07 per head.

It will be of some interest then to see how the household of the state was ordered for the year 1903-4. The budget for that year, of which, of course, the expenditure for the present war forms no part, was as follows :

therefore, for an explanation, and come to the *Résumé statistique de l'Empire du Japon* for 1904, which is issued by the Imperial Bureau for General Statistics. There we find all the above fifteen heads and corresponding figures, but also a new item, namely, paper money in circulation, Y. 1,543,247. That is the exact amount missing in the *Financial Annual*. In view of the fact, however, that there are Y.194,000,000 of paper money in circulation at present, that item requires an explanation which I am not in a position to give.

It may not be unnecessary further to state here that the amounts of loans remaining at the end of the (? financial) years from 1870 to 1902 inclusive are quite different in a work published last year, at the request of Baron Hirata, the minister for agriculture and commerce, by Mr. Haruki Yamawaki, the minister's private secretary, the difference for the year 1895, for instance, amounting to Y.76,316,611, the totals for 1902 showing a difference of Y.14,594,871. There is probably some good reason for these differences, but since the figures must necessarily have the same source, it seems that there should not be differences of many millions between the amounts of the several years, nor any material difference between the totals.

SOURCES OF REVENUE

Taxes	<i>Ordinary</i>	1903-4
		(Estimated)
Land tax	Y.	46,996,212
Income tax		7,412,801
Business tax		6,792,818
Tax on <i>saké</i>		66,535,404
Tax on soy		3,444,034
Customs duties		16,570,635
Sugar excise		7,184,637
Other inland taxes		3,552,083
Total		Y. 158,488,644
Stamp receipts	Y.	13,532,121
Receipts from public undertakings and state property, post and telegraph services		25,915,940
Forests		2,955,361
Profit of leaf-tobacco monopoly		12,609,012
Railway profits		8,785,089
Other receipts from public undertakings and state property		2,477,120
Total		Y. 52,739,522
Interest on deposits transferred	Y.	3,309,805
Transferred from fund for redemption of Formosan public-works loan		1,350,000
Transferred from education fund		500,000
Other miscellaneous receipts		1,882,407
Total of ordinary revenue		Y. 231,802,499
<i>Extraordinary</i>		
Proceeds from state property sold	Y.	894,375
Local contributions to expenses incurred by the state for the benefit of certain prefectures		1,076,800
Receipts from the issue of public loans		7,427,683
Chinese indemnity transferred		3,574,717
Forestry fund transferred		2,145,904
Other miscellaneous receipts		4,759,983
Total of extraordinary revenue		Y. 19,879,462
Grand total		Y. 251,681,961

BRANCHES OF EXPENDITURE

Ordinary

		1903-4 (Estimated)
Imperial household	Y.	3,000,000
Foreign affairs		2,284,160
Home affairs		10,627,469
Finance—		
National debt charges		42,402,101
Other various expenses		19,468,526
Army		38,495,727
Navy		22,077,695
Justice		10,563,532
Public instruction		4,994,286
Agriculture and commerce		2,943,949
Communications		21,606,676
Total	Y.	178,461,121

Extraordinary

Foreign affairs	Y.	108,765
Home affairs		16,708,430
Finance		5,123,951
Army		3,676,241
Navy		7,118,575
Justice		543,907
Public instruction		1,665,080
Agriculture and commerce		7,469,752
Communications		23,873,524
Total	Y.	66,288,225
Grand total	Y.	244,752,346

Deducting from the total of the taxes the amounts of the income tax and business tax, we have left Y. 144,283,025, and deducting from the total of 68 million increase of taxation the proceeds of the 70 per cent. increase of the income tax and business tax with Y. 9,943,933, we have Y. 56,057,067 increase of taxation left, which represents an increase of nearly 39 per cent. on the taxation outside of the income and business tax, so that an exceptionally heavy penalty in the shape of taxation is attached to the carrying on of business and to incomes from business dur-

ing the war, when business is already suffering from a variety of causes incidental thereto.

Among the items of the expenditure it will be noted that only Y. 6,659,366 is allotted to public instruction—that is, about 14.5 sen per head per annum—and only Y. 10,413,701 to agriculture and commerce, or about 22.7 sen per head per annum, while it requires about Y. 1.36 naval and military expenditure per head per annum to protect the results of the work of those 37 sen per head per annum—that is, about four and a half times the amount; and it should be noted that the year shows an extraordinary expenditure which, left out of consideration, would make the proportion still more unfavorable for the Educational Department and for the Department for Agriculture and Commerce. I question very much that such a proportion is indicative of a national policy whose principal object is, as it should be, the material increase of the happiness and prosperity of the people of Japan, and the development of the natural resources of Japan.

Condition of banks.—Before entering on the details of this subject, I may say that the management of the larger banks, such as the Yokohama Specie Bank, the Mitsui Ginko, the Daiichi Ginko, the Dai San Ginko, and others, seems to be carried on with the greatest prudence and circumspection, and in accordance with the best and most conservative principles of banking, so that they are entitled to every confidence. Their semi-annual reports are generally published in the foreign press, so that any information desired on their working is open to all. The Bank of Japan, however, is the only bank of issue, so that none of the other banks have any notes outstanding, and their semi-annual reports afford no exact information as to the amount of gold in their vaults. The amount is probably a very small one, as, according to a recent report of the Bank of Japan, or of the Finance Department, only 18 million gold yen were in circulation; that is, presumably in the hands of the banks or in those of private persons, as gold is never seen in ordinary business, and as no payments in gold are made at the counters of any bank. Those desiring gold for Japanese gold notes can obtain it only at the Bank of Japan in Tokyo. A regulation to that effect was published a couple of years ago, so that,

although Japan is a gold-standard country, gold is not in circulation and can be obtained only in small amounts as a special favor from the banks.

Thus, to return for a moment to bank reports, we find in the balance sheet of the Mitsui Ginko for December 31, 1903, among the assets the item "Nippon Ginko account and cash on hand Y. 3,787,393."

In the Forty-eighth Report of the Yokohama Specie Bank, Limited, presented to the shareholders at the half-yearly ordinary general meeting on March 10, 1904, we find the following items among the assets:

CASH ACCOUNT

In hand	Y. 5,110,030	
At bankers	5,346,010	
	<hr/>	Y. 10,456,040
Bullion and foreign money....		520,676

How much of the above sums, except the last one, was represented by gold is not known; but even if the exact amounts of gold in the vaults of all the banks were available, they would represent only a fluctuating quantity, so that we must be satisfied with the fact that a couple of weeks ago only about 18 million gold yen were in circulation in Japan.

The following are the principal banks:

	Authorized Capital	Paid Up Capital
Bank of Japan	Y. 30,000,000	Y. 30,000,000
Yokohama Specie Bank	24,000,000	18,000,000
Hypothec Bank of Japan	10,000,000	3,250,000
Bank of Formosa	5,000,000	2,500,000
Hokkaido Colonization Bank	3,000,000	2,100,000
Agricultural and Industrial Banks.....	28,370,000	27,657,234
Industrial Bank of Japan	10,000,000	2,500,000
1,867 ordinary banks (in 1901).....	365,031,900	251,700,369
414 savings banks (in 1901).....	50,281,300	29,608,687

Some fear has been expressed in the United States, I am informed, that Japan may have to suspend specie payments.⁴

* EXPORTS AND IMPORTS OF GOLD COIN AND BULLION

(From the end of 1883 to beginning of 1904)

	Exports	Imports
	Y. 150,206,317	Y. 189,023,951
First four millions, 1904.....	58,000,000
First three millions, 1904	654,508
	Y. 208,206,317	Y. 189,678,459

I do not think that will be done. National pride, which is a very strong factor in the national life of Japan, will prevent such a course; but national pride is not in itself a tangible asset. The question, therefore, is whether the facts given in this article justify such a fear or not. I do not think they do. The increased taxes, as above shown, leave a surplus over the interest on the present war loans for a sinking fund, and the question rather is: How much will Japan be able to borrow at the end of five years, and on what terms?

And a still nearer question is: Where, on what terms, and on what security will Japan be able to borrow, in the course of the year, the 161 million still necessary for the conduct of the war up to the end of the year, after the second loan of 100 million in treasury bonds, now about to be issued, has been issued?

These questions I must leave unanswered, because the next five years are certain to bring much that would make any present answer or forecast a mere idle speculation of no value whatsoever. As regards the general financial condition of the country at present, however, what with the necessity of suspending all public works from lack of funds; with loans just made, and further loans to be made in the course of the year; with the hypothecation of the customs revenue; with the already much prolonged stagnation of business, and with a war of uncertain duration and issue on hand, I think one would have to be very sanguine, or else paid by the government, to assert that it is a favorable one, or a situation that is not fraught with serious difficulties. In February, 1903, in a series of articles on the *Financial Annual* of Japan, which appeared in the *Eastern World*, at Yokohama, I also had occasion to call attention to the excess of imports over exports, and to criticise adversely the contemplated expenditure of 100 million yen for naval expansion during the next ten years. Today, as shown above, we still have an accumulated excess of imports over exports of Y. 247,997,793, so that, as last year, all the gold in Japan would not be sufficient to pay it, and the budget for 1904-5 is certain to bring a still larger naval and military expenditure.

One of the articles just referred to said:

Japan has no lease of immortality, and her borrowing capacity may, and in all probability will, come to an end long before her need of borrowing, and what will be the result when that is the case, when that *tomorrow* comes which for the Japanese government of *today* has no existence? Her people will have been impoverished by excessive taxation, and millions will go to swell the already unproportionately crowded ranks of an unintelligent cooliedom that has absolutely nothing to give to the state but brute strength — strength that can pull and push and bear burdens, but which cannot direct. All the gold coin in existence in Japan in 1901 was only Y. 59,342,303,⁶ and the amount of convertible bank notes in circulation was Y. 214,095,566.⁶ That is, for every gold note of Y. 1 there were only 27 gold *sen*, and to that fact also must be attributed the abnormally high cost of living in Japan, or, in other words, the diminished purchasing power of Japanese paper money, which now, although promising payment in gold, purchases only about half as much as it did ten years ago. What, then, if events occurred to cause a panic, a rush for gold? Questions would arise at once which had better be considered now. The present gold notes are issued by the Nippon Ginko, and the Nippon Ginko, the *bank* of Japan, but not the *government* of Japan — we have called attention to that fact before — promises to pay gold for these notes on demand. How is the bank going to do it? It is merely a figure of speech to say that those 59 odd million of gold coin are in *circulation*, for, as a matter of fact, if the few gold pieces that were seen after the adoption of the gold standard would warrant the word at all, gold has completely *disappeared* from circulation, and to all practical intents and purposes never was in circulation. It has been hoarded, stowed away, as it was before the restoration. People who want gold for their notes have to go to Tokyo to the Nippon Ginko and get it. No other bank is obliged to, and no other Japanese bank will, pay gold for them, nor will a foreign draft for which gold has been paid in Europe be paid in gold coin in Japan, and two or three days ago we had occasion to give an instance of that kind in these columns. Then, in the case of a panic, the 27⁷ million which the people of Japan have in the savings banks, and which are to be, or already have been, invested in government bonds, will be called for and wanted — wanted at once, too. Where will those 27 million gold *yen* come from? Or does anyone think that Japan will never experience financial panics? The field on which they spring up has been admirably prepared so that the most complete success is assured, and battleships and steel cruisers cannot fight panics. England with all her wealth and immense resources has had *ten* panics, or monetary crises, in a little more than a hundred years (from 1763 to 1866), and Japan has no Bank of England to come to the rescue. The panic of 1866 in England began with a strong foreign drain in 1865. In January, 1866, the bank raised its rates to 8 per cent., there were a number of finance and discount companies

⁵ In 1902, Y. 89,247,908.

⁶ In 1902, Y. 234,078,745.

⁷ About the same at the end of 1902. No later figures published.

which had advanced funds to promote railways and other schemes which would not repay their cost for a long time, and several great railway contractors suspended, involving the companies which they had financed. In the beginning of May everyone knew that a monetary panic was impending. On May 9 the bank raised its rate to 9 per cent., and on the 10th Overend & Gurney, with liabilities of £10,000,000, stopped payment. There was a run on all the London banks, and the government, as it did in 1847, authorized the bank to increase its issue upon securities beyond the limits allowed by the act, at a rate of discount of not less than 8 per cent., promising to bring in a bill of indemnity if any infringement of the act took place. The government letter was made public, and that ended the panic of 1847. No infringement of the act took place, and the whole issue of notes in consequence of the letter was only £4,000,000. No sooner was it known that notes might be had than the demand for them ceased.

That would not be the case in Japan. There the cry would be for *gold* by the holders of the bank's notes, so that a government authorization to increase its note issue would only intensify the panic. Then let us assume that a foreign loan or other heavy payments — for battleships built in England, for instance — fell due at about the same time. The result would be a financial crash such as no other country ever experienced, and from which Japan might never recover.

In the beginning of these articles we have endeavored to show that the returns from the income tax of Y. 6,109,809 are unproportionately small, and that the returns which it should yield would probably be large enough to make the abolition of that very impolitic tax, the *business* tax, possible. The amount of the latter for 1902-3 is only Y. 6,604,003, and we feel sure that the restrictions which this tax puts upon the establishment of new enterprises, and upon the growth and expansion of already existing business and manufacturing establishments, costs the state very much more than it brings. When the immense excess of imports over exports of recent years has been commented upon in the press; we have heard it said that the value of the money that has to be paid for those imports, to a large extent, is represented by machinery, tools, and implements of various kinds which remain in the country and are instrumental in producing wealth. That is true, and because it is true the government should do everything to foster productive activity so that some of the wealth to be produced may be produced as quickly as possible, so that the debt for the excess of imports be got rid of as quickly as possible. Instead of doing that, however, the Japanese government, being continually between the Scylla and Charybdis of the army and navy with its funds, only realizes that it must have money to appease the clamor of the one and the other in turns, and hence the fact whether the way in which money is raised may be injurious to the development of trades and industries is never considered. Hence, as regards the unpaid imports of stock, plant, and machinery, upon which from 6 to 8 per cent., and in some cases perhaps more, interest has to be

paid until they are paid for, the government imposes another $1\frac{1}{2}$ per cent. upon the value they represent, as that value forms a part of the capital of the manufacturing establishment in which it is used, and, not enough with that, from 1 to 3 per cent. more are imposed upon the net returns of what these unpaid imports produce under the heading of income tax. Nor is that all: the manufacturer must also pay the government 4 per cent. (say *four* per cent.) upon the rent he pays, upon money that he pays *out*, and the landlord who receives the rent has to pay income tax on it, so that upon all house rents the government levies a total tax of from *five* to *seven* per cent.; and we can assure the Japanese government that foreign capital, which is so much desired in Japan, has inquired into these matters, and is *not* going to pay 4 per cent. on the rental value of buildings it may require, and that it is *not* going to pay an annual import tax of $1\frac{1}{2}$ per cent. on its amount as a business tax. That is one of the barriers which the unfortunate, and we may say unwise, necessities of the Japanese government have erected against the introduction of foreign capital, and we may frankly tell the government that our remarks on the subject are attentively read in interested circles, and, we have reason to believe, acted upon. It is our honest opinion, then, that until the tax of $1\frac{1}{2}$ per cent. on manufacturing capital, and the exorbitant and especially obnoxious tax of 4 per cent. on the rental value of buildings, or on any part of buildings, used for manufacturing purposes, is abolished, every *yen* realized from the business tax, in one way or the other, will cost the government *ten*.

On the general state of business sufficient has already been said so that no further remarks on that subject will be necessary, and it is beyond the scope of this article to enter upon the customs returns for 1903 and for the first four months of the present year, although American exporters and importers would probably be interested in the details.

I have no hesitation in saying that the policy of aggression upon which Japan has embarked in the alleged interests of peace, or, as some would have us believe, as a matter of self-defense, and the higher taxation and monopoly-mongering to which it has given birth, do most adversely affect, and will continue so to affect, the commercial and industrial interests and the development of the country.

F. SCHROEDER.